

NCA
VOC FOR IOP/FN
BACKGRO-NDER NO. 5-5741
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INFLATION AND ECONOMIC RECOVERY

ANNCR:

THE ANNOUNCEMENT THAT PRESIDENT CARTER WILL ATTEND THE ECONOMIC SUMMIT IN BONN IN JULY, COUPLED WITH HIS STRONG ANTI-INFLATION SPEECH LAST WEEK, IS BEING SEEN BY SOME OBSERVERS AS NEW EVIDENCE THAT THE UNITED STATES IS PREPARED TO REASSERT ITS LEADERSHIP TO HELP PULL THE WORLD OUT OF ITS ECONOMIC DOLDRUMS. VOA'S VERA HIRSCHBERG HAS THIS BACKGROUND REPORT. VOICE :

TO THE EXTENT THAT RISING INFLATION IS A AN IMPORTANT NATIONAL PROBLEM LINKED TO CONFIDENCE IN THE AMERICAN ECONOMY, THE AMERICAN DOLLAR, AND OTHER ECONOMIC ISSUES WITH GLOBAL IMPLICATIONS, THE PRESIDENT'S ANTI-INFLATION STANCE OFFERS SOME ENCOURAGEMENT TO ECONOMIC OBSERVERS AT HOME AND ABROAD. SOME SAY IT COULD BE THE KEY TO REASSERTING AMERICAN LEADERSHIP IN REVIVING THE WORLD ECONOMY.

WILLIAM MILLER, THE NEW CHAIRMAN OF THE FEDERAL RESERVE BOARD -- THE UNITED STATES CENTRAL BANK -- SAID "THE PRESIDENT, IN HIS ANTI-INFLATION SPEECH, HAD MADE PRACTICAL AND EFFECTIVE PROPOSALS FOR TURNING THE RATE OF INFLATION DOWNWARD AND RESTORING AMERICAN CONFIDENCE AND WORLD CONFIDENCE IN THE UNITED STATES ECONOMY AND THE DOLLAR. WHILE NOT EVERYONE MAY AGREE WITH MISTER MILLER, THERE IS, NEVERTHELESS, A GROWING BELIEF AMONG THE EXPERTS THAT IF THE PRESIDENT'S PROGRAM WORKS AND INFLATIONARY TRENDS CAN BE BROUGHT UNDER CONTROL, THE UNITED STATES WILL BE IN A STRONG POSITION TO RESUME ITS ROLE AS THE MAJOR SPARKPLUG OF WORLD ECONOMIC RECOVERY.

THERE HAVE BEEN STRONG INDICATIONS IN RECENT WEEKS THAT CONFIDENCE IN WASHINGTON'S ECONOMIC LEADERSHIP WAS WANING. RISING INFLATION, A STUBBORN AND HIGH TRADE DEFICIT, THE DOLLAR'S PROBLEMS AND LACK OF AN ENERGY POLICY FUELED THIS BELIEF AMONG SOME WORLD LEADERS WHO INDICATED THEY COULD NO LONGER RELY ON AMERICAN LEADERSHIP FOR STEADY AND PRUDENT ECONOMIC GROWTH BASED ON SOUND MONEY AND ECONOMIC KNOW-HOW. THE JOINT UNITED-STATES-WEST GERMAN MOVES TO STRENGTHEN THE DOLLAR DID LITTLE TO STOP THE RISE OF THE GERMAN MARK AGAINST IT. NOR DID INTERVENTION IN THE MONEY MARKET STRENGTHEN THE DOLLAR AGAINST OTHER CURRENCIES. AT THE SAME TIME, WESTERN INDUSTRIAL NATIONS HAVE APPARENTLY ALL BUT ABANDONED SUPPORT FOR WASHINGTON'S SO-CALLED "LOCOMOTIVE THEORY" OF WORLD RECOVERY UNDER WHICH THE UNITED STATES, WEST GERMANY AND JAPAN WOULD STIMULATE THEIR ECONOMIES MORE TO GENERATE NEW DEMAND FOR IMPORTS TO HELP PULL THE WORLD OUT OF ITS ECONOMIC SLUMP.

PERHAPS THE MOST VISIBLE EVIDENCE OF FALLING CONFIDENCE IN AMERICAN ECONOMIC LEADERSHIP WAS THE MEETING LAST WEEK OF MAJOR WESTERN EUROPEAN LEADERS IN COPENHAGEN. THEY AGREED ON A COMMON PROGRAM AIMED AT GREATER ECONOMIC GROWTH AND CURRENCY STABILITY WITHOUT A UNITED STATES ROLE. ALTHOUGH THE PROGRAM IS STILL IN THE PLANNING STAGE, IT APPARENTLY INCLUDES AGREEMENTS ON AN ECONOMIC GROWTH GOAL OF 4 POINTS 5 PER CENT FOR FISCAL 1979 AND GREATER RELIANCE ON A NEW MONETARY STANDARD KNOWN AS THE EUROPEAN UNIT OF ACCOUNT.

IT IS BY NO MEANS CERTAIN, HOWEVER, THAT WEST GERMANY, WHICH HAS SO FAR REFUSED TO STIMULATE ITS ECONOMY BECAUSE IT FEARS INFLATIONARY RESULTS, WILL GO ALONG COMPLETELY WITH THE PROGRAM. GERMAN LEADERS SAY THAT BEFORE THEIR COUNTRY MAKES SUCH MOVES, THE UNITED STATES MUST FIRST

DEMONSTRATE THAT IT IS SERIOUS ABOUT FIGHTING INFLATION,
CUTTING DOWN OIL IMPORTS AND STRENGTHENING THE DOLLAR.
PRESIDENT CARTER'S DETERMINATION TO DO ALL THREE, IN THE WORDS
OF ONE ECONOMIST REACTING TO HIS ANTI-INFLATION SPEECH --
"TO BITE THE BULLET", AUGURS WELL BOTH FOR RENEWED CONFIDENCE
IN AMERICAN ECONOMIC LEADERSHIP AND WORLD ECONOMIC RECOVERY.
JS/PY